

Message Text

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ACTION EUR-12

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SS-15 STR-04 CEA-01 PA-02 PRS-01 AGRE-00 ITC-01
L-03 H-02 INT-05 OES-06 /134 W
-----301942Z 056952 /50

R 301627Z MAR 77
FM AMEMBASSY PARIS
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INFO AMEMBASSY BONN
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PASS TREASURY, FEDERAL RESERVE, COMMERCE, LABOR

E.O. 11652: N/A
TAGS: EALR, EFIN, EGEN, FR
SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 07834, MARCH 17, 1977

1. SUMMARY

SINCE THE FINAL RESULTS OF THE MUNICIPAL ELECTIONS
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TEN DAYS AGO, THE COUNTRY HAS BEEN WONDERING WHETHER
P.M. BARRE WOULD MODIFY HIS ECONOMIC POLICY. HIS
RESPONSE AT LYON INDICATED THAT THERE WOULD BE NO
CHANGE IN THE BARRE PLAN OTHER THAN A LITTLE
ADDITIONAL AID TO STIMULATE INVESTMENT (SEE PARIS
09003). THE ONLY OTHER MAJOR NEWS ITEM, ALTHOUGH NO
SURPRISE, WAS THE 0.7 PERCENT INCREASE IN PRICES IN

FEBRUARY. END SUMMARY

2. DETAILS ON FF 4 BILLION TO FINANCE FIRMS' INVESTMENTS

THE CONDITIONS ON THE FF 4 BILLION LOANS TO FIRMS TO FINANCE INVESTMENT, ANNOUNCED BY P.M. BARRE LAST SUNDAY AT LYON, HAVE JUST BEEN SPECIFIED. THE FF 2 BILLION TO LARGE FIRMS WILL BE LENT THROUGH THE CREDIT NATIONAL IN THE FORM OF MEDIUM AND LONG-TERM LOANS. THE LONG-TERM LOANS WILL CARRY A RATE OF INTEREST AROUND 10 PERCENT. THE INTEREST RATE WILL BE LOWER THAN THE NORMAL 11 PERCENT RATE OF THE CREDIT NATIONAL DUE TO A REDUCTION IN COMMISSION CHARGES. THE MEDIUM-TERM LOANS WILL ALSO CARRY A LOWER RATE OF INTEREST AND WILL NOT BE SUBJECT TO THE LIMITS ON CREDIT.

THE FF 2 BILLION FOR SMALL AND MEDIUM-SIZED FIRMS WILL BE FINANCED BY A NEW NATIONAL BORROWING. THE INTEREST RATE ON THESE LOANS WILL BE SUBSIDIZED WHICH WILL COST THE GOF FF 250 MILLION DISTRIBUTED OVER FIVE YEARS. THESE LOANS WILL HAVE A MATURITY OF 15 YEARS WITH A TWO-YEAR GRACE PERIOD AND WILL CARRY 8.5 PERCENT INTEREST RATE DURING THE FIRST FIVE YEARS AND 11.0 PERCENT INTEREST RATE DURING THE FOLLOWING TEN YEARS.

3. GOF WILL TAKE MEASURES TO SUPPORT ACTIVITY IN UNCLASSIFIED

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BUILDING AND PUBLIC WORKS SECTORS

M. FOURCADE, MINISTER OF EQUIPMENT, ANNOUNCED THAT CERTAIN MEASURES WOULD BE TAKEN BY THE GOF TO SUPPORT ACTIVITY IN THE BUILDING AND PUBLIC WORK SECTOR. THE PUBLIC PROGRAMS FOR 1977 WILL BE ACCELERATED, FAVORING THOSE AREAS WHICH ARE EXPERIENCING PARTICULAR DIFFICULTIES. CERTAIN STRUCTURAL MEASURES WILL ALSO BE TAKEN TO IMPROVE COMPETITION, ESPECIALLY TO GUARD AGAINST PRICE-FIXING. FURTHERMORE, INCREASED EMPHASIS WILL BE PLACED ON EXPORTS BY INCREASING THE CONTRACTS FOR EQUIPMENT AND INFRASTRUCTURE IN INTERNATIONAL FINANCIAL PROTOCOLS.

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L-03 H-02 INT-05 OES-06 /134 W

-----301945Z 056944 /42

R 301627Z MAR 77

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 1183

INFO AMEMBASSY BONN

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4. RATE OF INFLATION INCREASES IN FEBRUARY

AS HAD BEEN EXPECTED, THE RATE OF PRICE INCREASE
WAS CONSIDERABLY HIGHER IN FEBRUARY THAN IN DECEMBER
OR JANUARY, REGISTERING 0.7 PERCENT INCREASE AS
COMPARED TO 0.3 PERCENT INCREASE IN BOTH OF THE
TWO PREVIOUS MONTHS. THE INCREASE IN PRICES OF
AGRICULTURE PRODUCTS WAS 1.1 PERCENT, MANUFACTURES
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0.4 PERCENT, AND SERVICES 0.8 PERCENT.

THE PRICE INCREASE REFLECTS THE VERY SHARP INCREASE

IN THE PRICES OF IMPORTED PRIMARY MATERIALS, PARTICULARLY COFFEE, COCOA, TEA AND PETROLEUM. THE INCREASE IN THE PRICE OF GAS CONTRIBUTED 0.12 POINTS TO THE INDEX WHILE THE INCREASE IN COFFEE PRICES CONTRIBUTED 0.11 POINTS. THE DECREASE IN THE VALUE ADDED TAX HAD ONLY A NEGLIGIBLE EFFECT ON PRICES IN FEBRUARY.

ANOTHER MAJOR FACTOR WAS THE INCREASE BY AS MUCH AS 40 PERCENT IN THE FEES OF CERTAIN DENTISTS WHICH ADDED 0.09 POINTS TO THE INDEX. STRESSING THAT THE GOF'S RECOMMENDATIONS REGARDING INCOME WERE APPLICABLE TO EVERYONE WITHOUT EXCEPTION, MINISTER DELEGATE DURAFOUR SAID THAT THE NECESSARY MEASURES WOULD BE TAKEN TO REDUCE THESE FEES BACK TO THEIR LEVEL OF DECEMBER 31, 1976.

5. PUBLIC TARIFFS WILL INCREASE ON APRIL 1

WITH THE EXCEPTION OF R.A.P.T., THE URBAN TRANSPORTATION SYSTEM, ALL PUBLIC TARIFFS WILL INCREASE BY 6.5 PERCENT ON APRIL 1. THIS ALONE WILL RESULT IN A 0.4 PERCENT INCREASE IN THE PRICE INDEX FOR APRIL.

6. MINIMUM WAGE WILL BE INCREASED APRIL 1

THE MINIMUM HOURLY WAGE (S.M.I.C.) WILL BE INCREASED BY AT LEAST 2.2 PERCENT ON APRIL 1. BY LAW S.M.I.C. IS AUTOMATICALLY INCREASED BY THE RATE OF PRICE INCREASE OVER A THRESHOLD OF 2.0 PERCENT. S.M.I.C. WAS LAST INCREASED ON DECEMBER 1.

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7. WAGES INCREASED BY 15.1 PERCENT IN 1976.

ACCORDING TO THE MINISTRY OF LABOR, HOURLY WAGES INCREASED BY 15.1 PERCENT IN 1976. THE RATE OF WAGE INCREASE WAS 4.1 POINTS HIGHER THAN THAT OF PRICES. IN THE FOURTH QUARTER WAGES INCREASED BY 2.9 PERCENT AS COMPARED TO 2.1 PERCENT INCREASE OF PRICES.

8. VALUE OF STOCK AND BOND ISSUES DECLINED IN 1976

THE VALUE OF STOCK AND BOND ISSUES IN FRANCE FELL BY 4 PERCENT FROM FF 52.8 BILLION IN 1975 TO 50.7 BILLION IN 1976. THE PROPORTION OF GROSS CAPITAL FORMATION FINANCED BY THE FINANCIAL MARKET FELL FROM 12.5 PERCENT

IN 1975 TO 10 PERCENT IN 1976, EXCLUDING THE PUBLIC
TREASURY BORROWING OF FF 2.5 BILLION LAST JUNE. THE
FOLLOWING TABLE SUMMARIZES FINANCIAL MARKET OPERATIONS
IN RECENT YEARS.

INVESTMENTS ON THE FINANCIAL MARKET 1971-1976

1971	1972	1973	1974	1975	TOTAL	1976	1976-
6TH	1975						
PLAN		IN PER-					
CENT							

SHARES	7.4	8.5	9.5	9.7	8.7	43.8	8.5	-2.3
CONVERTIBLE								
BONDS	0.6	1.2	1.2	1.2	1.4	5.6	1.1	-21.4
ORDINARY								
BONDS	24.5	28.4	36.5	23.1	42.7	155.2	41.1	-3.7
TOTAL								
BONDS	25.1	29.6	37.7	24.3	44.1	160.8	42.2	-4.3
GENERAL								
TOTAL	32.5	38.1	47.2	34.0	52.8	204.6	50.7	-4.0
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NET
AMORTI-
ZATION(5.5)(8.4) (8.5)(10.L)(10.4) (42.9)(9.5)

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NET
INVEST-
MENT 27.0 29.7 38.7 23.9 42.4 161.7 41.2 - 2.8

THIS TREND HAS CONTINUED IN RECENT MONTHS. THE VALUE
OF ISSUES OF BOTH STOCKS AND BONDS WAS FF 3,376.7
MILLION IN FEBRUARY AS COMPARED TO FF 3,850.9 IN
FEBRUARY 1976. STOCK ISSUES DECLINED FROM FF 941.3
MILLION IN FEBRUARY A YEAR AGO TO FF 589.6 MILLION.

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BOND ISSUES WERE FF 2,787.1 MILLION IN FEBRUARY 1977
AND FF 2,909.6 MILLION IN FEBRUARY 1976.

9. TRADE SURPLUS FOR AUTOMOBILE INDUSTRY SLIGHTLY
LOWER IN 1976 THAN IN 1975

THE AUTOMOBILE INDUSTRY REGISTERED A FOREIGN TRADE
SURPLUS OF FF 15.8 BILLION IN 1976, SLIGHTLY BELOW
THE 1975 SURPLUS OF FF 16.0 BILLION. ALTHOUGH EXPORTS
INCREASED BY 27 PERCENT TO FF 34.7 BILLION, IMPORTS
INCREASED BY 65.8 PERCENT TO FF 18.9 BILLION. THE
SHARE OF AUTOMOBILE EXPORTS IN TOTAL FRENCH EXPORTS
INCREASED FROM 12 PERCENT IN 1975 TO 13 PERCENT IN 1976.

THE AUTOMOBILE INDUSTRY CONTINUED ITS EXCELLENT
PERFORMANCE IN FEBRUARY. PRODUCTION AND EXPORTS
WERE 14 PERCENT AND 14.4 PERCENT ABOVE THEIR
RESPECTIVE LEVELS A YEAR AGO. HOWEVER, IMPORTS
WERE 18.4 PERCENT HIGHER WHICH WILL RESULT IN
A MUCH LOWER TRADE SURPLUS THIS YEAR UNLESS THIS
TREND IS REVERSED.

10. BUILDING INVESTMENT: FINANCIAL RETURNS

SUGGEST CONTINUED SLOWDOWN

ACCORDING TO DATA RELEASED BY THE BOURSE ON 36
BUILDING INVESTMENT COMPANIES OWNED MAINLY BY MAJOR
BANKS, PROFITS (PRICE/EARNINGS RATIOS) HAVE REMAINED
ABOUT THE SAME FOR THE PAST TWO YEARS. ALMOST TWO-
THIRDS OF THESE FIRMS, WHICH SELL SUBSCRIPTIONS TO
RAISE CAPITAL FOR BUILDING INVESTMENT, EARNED
BETWEEN 6 AND 8 PERCENT DURING 1975-1976, WHILE ONLY
FOUR OF THEM EARNED BETWEEN 10 AND 11 PERCENT IN BOTH
YEARS AND 10 EARNED BETWEEN 8 AND 10 PERCENT IN 1976,
COMPARED TO 6 IN 1975. THIS RATE OF RETURN IS NOT
PARTICULARLY GOOD, COMPARED TO 9.625
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PERCENT FOR CALL MONEY, BETWEEN 10 AND 11 PERCENT FOR
BONDS GUARANTEED BY THE GOVERNMENT, ETC. DESPITE
THIS, 21 OF THE 36 FIRMS REGISTERED AN INCREASE IN
SHARE PRICES DURING 1976, WHILE THE REMAINDER
EXPERIENCED NO SIGNIFICANT CHANGE, INDICATING A
CONTINUED PREFERENCE BY SOME FRENCH INVESTORS FOR
REAL ESTATE PAPER. THIS PREFERENCE PROBABLY REFLECTS
AN EXPECTATION OF CONTINUED APPRECIATION OF REAL
ESTATE VALUES. HOWEVER, IT SEEMS LIKELY THAT THE
MEDIOCRE RATE OF RETURN ON BUILDING INVESTMENT
REFLECTED IN BUILDING INVESTMENT COMPANY RETURNS WILL
REMAIN FOR SOME TIME ONE OF THE MAJOR REASONS FOR THE
SLOWDOWN IN THE RATE OF NEW CONSTRUCTION EXPERIENCED
SINCE 1974 IN FRANCE.

11. CERTAIN SECTORS IN CHEMICAL INDUSTRY RECOVERED
FROM 1975 SLUMP

THE CHEMICAL INDUSTRY SHOWED A CLEAR RECOVERY IN
1976 WITH RESPECT TO THE PREVIOUS YEAR. HOWEVER,
ALTHOUGH THE VOLUME OF PRODUCTION INCREASED BY 13.6
PERCENT, IT WAS NOT SUFFICIENT TO GET BACK TO THE
LEVEL OF ACTIVITY IN 1974. FURTHERMORE, PRODUCTION
WAS SUSTAINED BY FOREIGN DEMAND SINCE INTERNAL
DEMAND REMAINED STATIONARY IN CERTAIN BRANCHES.
EXPORTS INCREASED BY 27 PERCENT TO FF 29.5 BILLION,
WHILE IMPORTS INCREASED BY 34.2 PERCENT TO
FF 26.3 BILLION, RESULTING IN A SURPLUS OF FF 3.2
BILLION. THE ORGANIC CHEMICALS INDUSTRY LED THE WAY
WITH A 32.2 PERCENT INCREASE IN PRODUCTION. ON THE
OTHER HAND, PRODUCTION IN THE INORGANIC CHEMICAL
INDUSTRY INCREASED BY ONLY 3.1 PERCENT IN CONTRAST TO
A DECLINE OF 16.8 PERCENT IN 1975. THIS IS DUE TO

THE CRITICAL SITUATION IN THE FERTILIZER INDUSTRY.
FOR THE COMING MONTHS, CHEMICAL PRODUCERS COUNT ON
ONLY A VERY WEAK EXPANSION.
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12. FRENCH EXTERNAL BORROWING

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L-03 H-02 INT-05 OES-06 /134 W
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R 301627Z MAR 77

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THE FOLLOWING LONG-TERM EXTERNAL FRENCH BORROWING WAS
NOTED IN THE PRESS DURING THE REPORTING PERIOD:

CAISSE CENTRALE DE COOPERATION ECONOMIQUE, DM 100
MILLION, 12 YEARS, 7.00 PERCENT INTEREST RATE.

13. OTHER REPORTS SUBMITTED DURING THE PERIOD

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TELEGRAMS

PARIS

09116 STATUS OF RATIFICATION OF AMENDED IMF
ARTICLES OF AGREEMENT & QUOTA INCREASE 3/29

09003 ECONOMIC POLICY WILL BE CONTINUED BUT
INVESTMENT WILL RECEIVE A SMALL PUSH 3/28

08937 BARRE: NO CHANGE IN BASIC POLICY OF
BARRE PLAN 3/25

08762 UPDATE OF FORECAST OF FRENCH ECONOMY
FOR 1977 3/24

08343 BOURSE REACTION TO SECOND ROUND
MUNICIPAL ELECTIONS 3/22

08186 ASIAN DEVELOPMENT BANK ANNUAL MEETING 3/21

08055 CHURCH SUBCOMMITTEE REPORT 3/18

07872 GOVERNMENTAL TRADE CREDITS FOR CUBA 3/17

AIRGRAMS

PARIS

A-116 FRENCH FOREIGN EXCHANGE HOLDINGS 3/28

A-101 FRENCH FOREIGN EXCHANGE HOLDINGS 3/18

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, DATA, ECONOMIC REPORTS, FINANCIAL TRENDS
Control Number: n/a
Copy: SINGLE
Sent Date: 30-Mar-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977PARIS09321
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770109-0397
Format: TEL
From: PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t1977037/aaaaafhv.tel
Line Count: 475
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: a3cfbab9-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 9
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 77 PARIS 7834
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 20-Sep-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3137949
Secure: OPEN
Status: NATIVE
Subject: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS
TAGS: EALR, EFIN, EGEN, FR
To: STATE
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/a3cfbab9-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009